

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Supplemental Retirement Issues

FROM

Liaison Division
Office of Legislative Liaison

EXTENSION

NO.

DATE

10 February 1984

TO: (Officer designation, room number, and building)

DATE

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No Response required
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Return to me for next
action.

Done 13 Feb
Small Lippman

09 FEB 1984

MEMORANDUM FOR: Director of Personnel

FROM:

Liaison Division
Office of Legislative Liaison

STAT

SUBJECT: Supplemental Retirement Issues in the
Congress

SUMMARY: I met again today with staff of Senator Ted Stevens (R,AL), Chairman of the Civil Service, Post Office, and General Services Subcommittee of the Senate Committee on Governmental Affairs. The single issue discussed was supplemental retirement, in several of its infinite contexts. This discussion reinforced an already-pessimistic view of the retirement issues that the Agency is facing. It also again highlighted the need for us to determine our supplemental retirement needs in the social security arena in both a timely and in a thoughtful manner. We have a window of opportunity and an expressed willingness to help in the Senate that we do not have in the House. This opportunity, however, will, in my judgment, be lost if we do not initiate meaningful dialogue within the next several weeks. We must begin to take meaningful action on this issue now.

1. Senator Stevens' staff advises that the following issues, put forth in the President's FY 1984 and FY 1985 budgets, will be vigorously pursued by the Reagan Administration, assuming the President's reelection, in Calendar Year 1985 (FY 1986):

- restructure federal retiree COLA calculations, such that retirees will receive full COLA on the first \$9,600 (or \$10,000) of annuity only, and 55% of the full COLA on all amounts received above that amount;
- raise the retirement age, that age at which federal employees can retire without penalty, from the present age 55 to age 65, with the requisite number of years of federal service; and
- raise, over a two year period, federal employee and employer contributions into the federal retirement fund from the present 7% of an employee's gross salary to 9%.

Senator Stevens' staff further adds that the issue of changing the retirement calculation base from a "high three" average to a "high five" average is still under Office of Personnel Management (OPM) consideration.

2. The staff also advises that these issues will be argued in the context of supplemental retirement. Said differently, any movement on these issues that achieves legislative acceptance will apply to all federal employees hired as of 1 January 1984. Presently at issue, and to be determined in the Congress in 1985, is the issue of whether or not any of these changes legislated will be applied to federal employees hired prior to 1 January 1984, who are presently participants of the Civil Service Retirement System or one of the several independent federal retirement systems, like CIARDS.

3. In response to a direct question from me concerning the likelihood of achieving enhanced retirement benefits, either in a supplemental retirement context or otherwise, I was told that the Agency should not waste any (or further) effort on this matter. In fact, the outlook just for retaining existing federal employee benefits and/or entitlements will be an uphill battle in the 99th Congress, which will convene in January 1985. It is Senator Stevens' staff view that the federal employee benefits arena will be an extremely contentious one if the President is reelected. His Administration is on record as intending to significantly reduce federal entitlement programs in an attempt to reduce the deficit. Federal employee retirement systems are a part of the federal entitlement program, and by definition, therefore, are a target for substantial reduction, rather than for either increases or for retention of existing benefit levels.

4. In the staff's opinion, the Agency will be hard-pressed to retain existing CIARDS benefits in any supplemental retirement system that is enacted by the Congress. The staff bases this judgment on the fact that the government-wide supplemental retirement programs that will be proposed in the Congress and the one ultimately enacted will be measurably less beneficial than the existing Civil Service Retirement System. Mr. Jamie Cowen, Senator

Stevens' chief counsel on the subcommittee, believes that the Agency may well be forced to sacrifice some existing CIARDS benefits in order to save more important ones. He makes the point that this may result, not necessarily because present CIARDS benefits are unreasonably attractive to our overseas employees, but rather because of the political dynamic that now exists in the Congress and that will get progressively worse next year, given the budget deficit dilemma and the President's avowed goal of reducing federal entitlement programs.

5. If the above assessments are even remotely close to the political reality that exists in the Congress, it seems to me that we must immediately begin to assess our supplemental retirement needs, options, and strategies, all of which must lead in the reasonably-near time frame to some policy decisions from the DCI. While we don't need all of our policy decisions right now, we must at least begin to map our plans and define our basic retirement needs so that we can start to design a strategy that will allow us to get involved in the legislative process on the Hill, if indeed that is the appropriate thing to do. We must not lose sight of the fact that the supplemental retirement train is quickly gaining momentum on the Hill and that if we don't get involved pretty soon, it will be too late. In the Senate, for example, the entirety of the supplemental retirement program that Senator Stevens will introduce in legislation will have been crafted and designed, from a substantive viewpoint, by the time that the Congress recesses for the Republican Convention, in early August 1984. While the House may be several months behind the Senate, we will not, in my opinion, find anywhere near the support for our "unique" supplemental retirement needs in the House that presently exists in the Senate. We therefore, in my judgment, have a narrow window of opportunity in the Senate that we dare not miss.

6. I will detail in my next memorandum to you the several policy alternatives that are beginning to emerge from my discussions with Senator Stevens' staff

STAT

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